

Message Text

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

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SUBJECT: INFLATION IN BELGIUM - MIXED PICTURE

REF: (B) BRUSSELS 7326; (B) BRUSSELS A-223

1. SUMMARY. ECONOMIC INDICATORS ARE MIXED, THE INFLATION RATE IS RUNNING AT 15 PERCENT, AND THE GOVERNMENT MAINTAINS ITS TIGHT MONETARY POLICY. END SUMMARY.

2. AMONG THE FAVORABLE ECONOMIC SIGNS IN BELGIUM TODAY ARE: (A) BELGIUM'S STILL POSITIVE BALANCE OF PAYMENTS (THIRTEEN BILLION FRANCS FOR THE FIRST FIVE MONTHS OF 1974 IS ALMOST THE IDENTICAL AMOUNT FOR THE SAME PERIOD LAST YEAR);

(B) UNEMPLOYMENT UP ONLY SLIGHTLY (105 THOUSAND PERSONS FOR SEPTEMBER 1974 AS COMPARED WITH 88 THOUSAND PERSONS

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FOR THE SAME MONTH LAST YEAR);

(C) INDUSTRIAL PRODUCTION STILL HIGH (EXCEPT FOR TEXTILES AND STEEL) WITH ORDERS COVERING THE EQUIVALENT OF TEN MONTHS' WORK;
(D) THE BELGIAN FRANC STILL STRONG DESPITE A RECENT MINOR BANKING SCANDAL (BRUSSELS 8002).

3. ON THE OTHER HAND, THERE ARE ALSO UNFAVORABLE ECONOMIC INDICATORS IN BELGIUM TODAY. THE MOST SIGNIFICANT OF THESE ARE:

(A) INFLATION AT 15 PERCENT SO FAR FOR 1974;
(B) A CENTRAL BANK SURVEY AMONG BUSINESSMEN SHOWING THEY EXPECT ORDERS TO DECLINE NEXT SPRING AND THAT THEY PLAN TO SLOW PRODUCTION ACCORDINGLY;
(C) LOWER INFLATION RATES AMONG BELGIUM'S KEENEST COMPETITORS IN WORLD MARKETS (GERMANY AND THE NETHERLANDS);
(D) A SLIGHT WEAKENING OF DEMAND - BOTH DOMESTIC AND FOREIGN - THROUGHOUT THE ECONOMY.

4. IN THE FACE OF THESE MIXED INDICATORS, THE BELGIAN MINISTER OF FINANCE ANNOUNCED ON OCTOBER 10 A CONTINUATION OF HIS TIGHT CREDIT POLICY (BRUSSELS 6916) AND TOOK THE OCCASION TO REPORT ON THE EFFECTS TO DATE OF THE CREDIT SQUEEZE. THE MINISTER TOLD PARLIAMENT THAT WHEREAS IN JULY 1973 THE TOTAL MONEY SUPPLY HAD GROWN BY 16 PERCENT, IN JULY 1974 THE GROWTH OF THE MONEY SUPPLY WAS ONLY 12 PERCENT. AS DATA FOR AUGUST AND SEPTEMBER BECOMES AVAILABLE, HE ADDED THE GOVERNMENT EXPECTS THIS DOWNWARD TREND TO CONTINUE.

5. FURTHERMORE, HE NOTED, LOANS BY BANKS TO THE PRIVATE SECTOR HAD SLOWED FROM A FORMER ANNUAL GROWTH RATE (JULY 1972 TO JULY 1973 OF 11 PERCENT TO A NEW ANNUAL GROWTH RATE (JULY 1973 TO JULY 1974) OF 9-1/2 PERCENT. HE SAID HE HOPED THIS RATE TOO WOULD DROP FURTHER IN THE NEXT FEW MONTHS.

6. THE SAME DAY, THE MINISTER OF ECONOMIC AFFAIRS MADE IT CLEAR TO PARLIAMENT THAT THE GOVERNMENT INTENDS TO CONTINUE MOVING ALONG THE GENERAL ECONOMIC POLICY LINES OUTLINED LAST SUMMER, I.E., VERY TIGHT CREDIT, A SLOWDOWN IN THE GROWTH OF THE GOVERNMENT'S DEFICIT AND A MODERATE RISE IN TAXES
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(BRUSSELS 6916 AND 7265). HE MADE CLEAR THAT HE STILL FEELS IT ESSENTIAL TO BRING INFLATION UNDER CONTROL GENTLY SO AS TO MINIMIZE THE ACCOMPANYING GROWTH IN UNEMPLOYMENT. HE AGAIN RULED OUT LONG-TERM PRICE CONTROLS AND DEFENDED THE PRESENT SYSTEM UNDER WHICH THE GOVERNMENT CAN DELAY, BUT NOT BLOCK, PRICE RISES FOR THREE (SOON TO BE SIX) MONTHS.

7. COMMENT: OUR SOURCES ALL AGREE THAT THE BELGIAN GOVERN-

MENT IS CONTINUING TO RELY ON THE ECONOMIC POLICIES IT SET
DOWN LAST SUMMER. ONLY BY NEXT CHRISTMAS, WHEN THOSE
POLICIES HAVE HAD ABOUT SIX MONTHS OF RUN, WILL THE
BELGIANS HAVE ENOUGH DATA AVAILABLE TO THEM TO JUDGE THEIR
SUCCESS OR FAILURE. LITTLE BASIC ECONOMIC POLICY CHANGE
IN BELGIUM SEEMS LIKELY, THEREFORE, BEFORE THE NEW YEAR-
UNLESS INFLATION GETS EVEN FURTHER OUT OF HAND OR UNEMPLOY-
MENT SOARS UNEXPECTEDLY.FIRESTONE

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